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Consolidated Financial Statements of

SUNRISE INTERNATIONAL INC.

September 30, 1997

Deloitte & Touche, Chartered Accountants, has prepared the consolidated financial statements of Sunrise International Inc. in accordance with the standards of the Chartered Accountants of Canada. These standards require that the auditor express an opinion on whether the consolidated financial statements are presented fairly, in all material aspects, the financial position, results of operations and cash flows of the company as at and for the period indicated. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. Management is responsible for the preparation and presentation of the consolidated financial statements in accordance with the standards of the Chartered Accountants of Canada.

In our opinion, these consolidated financial statements present fairly, in all material aspects, the financial position of the Company as at September 30, 1997 and 1996 and the results of its operations and cash flows for the periods then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

September 30, 1997





Auditors' Report

To the Shareholders of
Sunrise International Inc.

We have audited the consolidated balance sheets of Sunrise International Inc. as at September 30, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Chartered Accountants

November 28, 1997

MANITOWOC INTERNATIONAL INC. Consolidated Balance Sheets

December 31, 1997 and 1996

| | 1997 | 1996 | |
|---|---------------|---------------|------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Consolidated Balance Sheets | \$ 71,599 | \$ 1,017 | |
| Prepaids | 1,733,444 | 1,393,410 | |
| Prepaid expenses and deposits | 2,792,733 | 2,735,388 | |
| Goodwill | 282,223 | 111,137 | |
| | 4,879,999 | 4,240,945 | |
| PROPERTY, PLANT AND EQUIPMENT (Note 3) | 241,891 | 177,045 | 1 |
| Consolidated Statements of Earnings and Retained Earnings | 3,732,477 | 3,276,404 | 2 |
| INVESTMENTS, COMPANIES AND OTHERS | 8,400,243 | 8,426,238 | |
| Consolidated Statements of Changes in Financial Position | 17,496,772 | 16,148,236 | 3 |
| INDEBTEDNESS (Note 3) | 1,875,343 | 1,884,874 | |
| Notes to the Consolidated Financial Statements | 46,213 | 57,313 | 4-16 |
| | \$ 23,997,716 | \$ 31,793,710 | |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ - | \$ 455,896 | |
| Accounts payable and accrued liabilities | 2,193,076 | 1,880,948 | |
| Notes payable | 375,274 | 366,241 | |
| Current portion of deferred loan fees (Note 3) | 45,394 | - | |
| Current portion of long-term debt (Note 3) | 1,794,261 | 1,896,747 | |
| | 4,308,005 | 4,739,092 | |
| DEFERRED INCOME TAXES (Note 3) | 181,887 | - | |
| LONG-TERM DEBT (Note 3) | 18,247,146 | 18,156,985 | |
| DEFERRED INCOME TAXES | 334,016 | 542,179 | |
| | \$ 21,127,432 | \$ 21,179,496 | |
| CONTINGENCIES AND COMMITMENTS (Note 3) | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital (Note 3) | 1,047,776 | 1,047,776 | |
| Contributed surplus | 31,430 | 41,416 | |
| Retained earnings | 78,998 | 217,894 | |
| | \$ 12,178,204 | \$ 12,297,890 | |
| | \$ 33,997,716 | \$ 31,793,710 | |

APPROVED BY THE BOARD

 Director

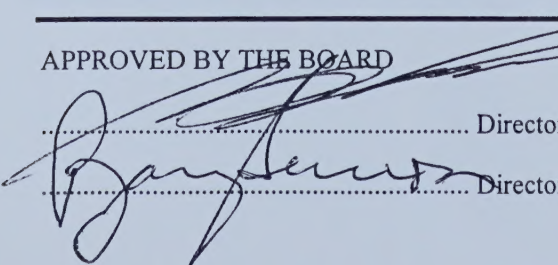
SUNRISE INTERNATIONAL INC.

Consolidated Balance Sheets

September 30, 1997 and 1996

| | 1997 | 1996 |
|--|---------------|---------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 71,509 | \$ - |
| Accounts receivable | 1,733,984 | 1,593,458 |
| Inventories | 2,702,923 | 2,733,506 |
| Prepaid expenses and deposits | 202,223 | 151,237 |
| Land inventory | 107,000 | - |
| | 4,817,639 | 4,478,201 |
| OTHER RECEIVABLES | 361,083 | 117,060 |
| PROPERTIES HELD FOR DEVELOPMENT (Note 3) | 1,186,177 | 1,276,604 |
| RENTAL PROPERTIES (Note 4) | 8,185,341 | 8,630,829 |
| CAPITAL ASSETS (Note 5) | 17,216,373 | 17,148,224 |
| INVESTMENTS IN AND ADVANCES TO SIGNIFICANTLY INFLUENCED COMPANIES AND OTHER INVESTMENTS (Note 6) | 1,072,433 | 1,344,670 |
| DEFERRED COSTS | 46,273 | 53,377 |
| GOODWILL (Note 7) | 512,397 | 535,774 |
| | \$ 33,397,716 | \$ 33,584,739 |
| LIABILITIES | | |
| CURRENT | | |
| Bank indebtedness | \$ - | \$ 451,604 |
| Accounts payable and accrued liabilities | 2,193,654 | 1,640,908 |
| Income taxes | 877,274 | 866,241 |
| Current portion of deferred land rent (Note 8) | 67,780 | - |
| Current portion of long-term debt (Note 9) | 1,804,901 | 1,830,715 |
| | 4,943,609 | 4,789,468 |
| DEFERRED LAND RENT (Note 8) | 101,668 | - |
| LONG-TERM DEBT (Note 9) | 15,247,145 | 15,436,092 |
| DEFERRED INCOME TAXES | 835,000 | 962,129 |
| | 21,127,422 | 21,187,689 |
| CONTINGENCIES AND COMMITMENTS (Note 10) | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 11) | 12,087,776 | 12,087,776 |
| Contributed surplus | 91,610 | 91,610 |
| Retained earnings | 90,908 | 217,664 |
| | 12,270,294 | 12,397,050 |
| | \$ 33,397,716 | \$ 33,584,739 |

APPROVED BY THE BOARD


..... Director
..... Director

SUNRISE INTERNATIONAL INC.**Consolidated Statements of Earnings and Retained Earnings**

Years ended September 30, 1997 and 1996

| | <u>1997</u> | <u>1996</u> |
|---|-------------------|-------------------|
| INCOME | | |
| Sales | | |
| Tourism and hotels | \$ 11,653,803 | \$ 11,367,499 |
| Retail | 9,943,827 | 9,514,932 |
| Rental | 1,170,229 | 1,063,293 |
| Income from investments in significantly influenced companies | 184,833 | 104,441 |
| Other | 347,318 | 171,769 |
| | <u>23,300,010</u> | <u>22,221,934</u> |
| EXPENSES | | |
| Cost of sales | | |
| Tourism and hotels | 3,946,826 | 3,797,717 |
| Retail | 8,510,400 | 7,728,174 |
| Rental | 313,774 | 152,817 |
| General and administrative expenses | 6,034,988 | 5,884,717 |
| | <u>18,805,988</u> | <u>17,563,425</u> |
| EARNINGS BEFORE THE FOLLOWING | <u>4,494,022</u> | <u>4,658,509</u> |
| OTHER CHARGES | | |
| Depreciation and amortization | 1,535,712 | 1,486,342 |
| Interest | | |
| Long-term debt | 1,405,628 | 1,504,826 |
| Operating interest and bank charges | 284,634 | 286,446 |
| Provision for impairment in value of assets | 871,711 | - |
| Gain from insurance settlement | (338,907) | - |
| | <u>3,758,778</u> | <u>3,277,614</u> |
| EARNINGS BEFORE INCOME TAXES | <u>735,244</u> | <u>1,380,895</u> |
| INCOME TAXES (Note 12) | <u>862,000</u> | <u>876,000</u> |
| NET (LOSS) EARNINGS | <u>(126,756)</u> | <u>504,895</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | <u>217,664</u> | <u>(287,231)</u> |
| RETAINED EARNINGS, END OF YEAR | <u>\$ 90,908</u> | <u>\$ 217,664</u> |
| (LOSS) EARNINGS PER SHARE | <u>\$ (0.003)</u> | <u>\$ 0.012</u> |

SUNRISE INTERNATIONAL INC.
Consolidated Statements of Changes in Financial Position
Years ended September 30, 1997 and 1996

| | 1997 | 1996 |
|---|--------------------|---------------------|
| NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING | | |
| OPERATING | | |
| Net (loss) earnings | \$ (126,756) | \$ 504,895 |
| Items not affecting cash | | |
| Deferred income taxes | (127,129) | 362,129 |
| Depreciation and amortization | 1,535,712 | 1,486,342 |
| Income from investments in significantly influenced companies | (184,833) | (104,441) |
| Provision for impairment in value of assets | 871,711 | - |
| Gain on disposal of capital assets | (399,404) | (46,477) |
| | 1,569,301 | 2,202,448 |
| Changes in non-cash operating working capital items | 158,827 | (302,579) |
| | 1,728,128 | 1,899,869 |
| FINANCING | | |
| Proceeds from long-term debt | 1,934,190 | 9,456,616 |
| Repayment of long-term debt | (2,148,951) | (9,017,016) |
| Recovery of land rent | 169,448 | - |
| | (45,313) | 439,600 |
| INVESTING | | |
| Purchase of capital assets | (1,800,659) | (1,398,930) |
| Purchase of rental properties | (731,998) | (281,596) |
| Purchase of properties held for development | (125,228) | (59,492) |
| Proceeds from disposal of properties held for development | 75,000 | - |
| Proceeds from disposal of capital assets | 966,113 | 69,719 |
| Disposal of and advances from (purchase of and advances to) investments in and advances to significantly influenced companies and other investments - net | 457,070 | (497,747) |
| | (1,159,702) | (2,168,046) |
| NET CASH INFLOW | 523,113 | 171,423 |
| BANK INDEBTEDNESS, BEGINNING OF YEAR | (451,604) | (623,027) |
| CASH (BANK INDEBTEDNESS), END OF YEAR | \$ 71,509 | \$ (451,604) |

SUNRISE INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended September 30, 1997 and 1996

1. DESCRIPTION OF BUSINESS

The Company is a holding company incorporated under the Business Corporations Act (Alberta). Its shares are traded on the Alberta Stock Exchange.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions have been eliminated. The wholly-owned subsidiaries are:

Jasper Inn Investments Ltd.
Maligne Tours Ltd.
373568 Alberta Ltd.
497751 Alberta Ltd.
Park Place Building Ltd.
Sunrise Auctions Ltd.
Pyramid Construction Inc.

Jasper Travel Agency Ltd.
Onyx Investments Ltd.
Liquor Hut Inc.
581519 Alberta Ltd.
King Street Mall Ltd.
Yellowhead Equipment Inc.
Oxon Industries Inc.

2. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

Inventories

Inventories are valued at the lower of cost and net realizable value. Land inventory cost includes capitalized interest and property taxes.

Properties held for development

Properties held for development are recorded at cost which includes the original purchase price, acquisition costs, interest on debt specifically related to the acquisition of the land, property taxes, and where applicable, development costs. Properties held for development are written down to estimated net realizable value in the year in which management determines that a permanent decline in value has occurred.

SUNRISE INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended September 30, 1997 and 1996

2. ACCOUNTING POLICIES (continued)

Rental properties and capital assets

The Company records rental properties and capital assets at cost. Rental properties and capital assets acquired in 1989 from related parties were recorded at their fair market values at the time of transfer. Depreciation on these assets is provided using the following annual rates and methods:

| | |
|-----------------------------|-----------------------------|
| Rental buildings | 4% declining-balance |
| Tourism and hotel buildings | 4% declining-balance |
| Retail buildings | 5% declining balance |
| Condominiums | 4% declining-balance |
| Tourism marine vessels | 15% declining-balance |
| Parking lots | 8% declining-balance |
| Furniture and equipment | 10% - 30% declining-balance |
| Vehicles | 30% declining-balance |
| Construction equipment | 30% declining-balance |
| Signs | 25% declining-balance |

The following assets on leased land are depreciated on a straight-line basis over the term of the lease. The Company's land leases are within Jasper National Park and have various lease expiry dates between 2007 and 2022.

Rental buildings
Tourism buildings
Parking lots
Swimming pool
Condominiums

Investments in and advances to significantly influenced companies and other investments.

Investments in companies in which the Company has significant influence are accounted for on the equity basis. Other investments are recorded at cost. Investments are written down when management has determined there has been a permanent decline in value.

Deferred costs

Costs relating to the leasing of lands in Jasper National Park have been capitalized. These costs are amortized over the term of the lease.

Goodwill

The excess of the cost of investments in subsidiaries over the fair value of the net assets acquired is recorded as goodwill. Goodwill is being amortized using the straight-line method over its estimated remaining life of eighteen to twenty-five years for assets on land leased in Jasper National Park. The Company assesses the continuing value of goodwill each year by considering current operating results, trends and projections. In the year of impairment in value, goodwill would be reduced by a charge to operations.

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

3. PROPERTIES HELD FOR DEVELOPMENT

| | 1997 | 1996 |
|-----------------------------------|---------------------|---------------------|
| Purchase price of land | \$ 452,106 | \$ 581,449 |
| Leasehold interests in properties | 445,000 | 445,000 |
| Carrying costs | 289,071 | 250,155 |
| | \$ 1,186,177 | \$ 1,276,604 |

Leasehold interests in properties include land located within Jasper National Park held under various leases which expire between 2010 and 2011.

Carrying costs include interest capitalized during the year in the amount of \$4,875 (1996 - \$24,803).

4. RENTAL PROPERTIES

| | 1997 | | 1996 |
|--------------------------|----------------------|--|---------------------|
| | Cost | Accumulated Depreciation and Amortization | Net Book Value |
| Land | \$ 2,362,066 | \$ - | \$ 2,362,066 |
| Buildings | 5,241,669 | 913,678 | 4,327,991 |
| Buildings on leased land | 2,052,478 | 782,723 | 1,269,755 |
| Parking lots | 357,202 | 134,291 | 222,911 |
| Signs | 21,565 | 18,947 | 2,618 |
| | \$ 10,034,980 | \$ 1,849,639 | \$ 8,185,341 |
| | | | \$ 8,630,829 |

Buildings on leased land are located within Jasper National Park on land held under various leases which expire between 2010 and 2022.

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

5. CAPITAL ASSETS

| | 1997 | | | 1996 |
|-----------------------------|----------------------|-----------------------------|----------------------|----------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Land | \$ 742,246 | \$ - | \$ 742,246 | \$ 742,246 |
| Tourism and hotel buildings | 3,864,047 | 793,935 | 3,070,112 | 3,133,378 |
| Retail buildings | 1,526,794 | 353,788 | 1,173,006 | 1,221,881 |
| Condominiums | 173,475 | 28,968 | 144,507 | 150,529 |
| Tourism marine vessels | 1,393,689 | 959,681 | 434,008 | 534,085 |
| Parking lots | 201,004 | 79,459 | 121,545 | 132,114 |
| Furniture and equipment | 4,743,108 | 2,963,558 | 1,779,550 | 1,934,961 |
| Vehicles | 646,474 | 334,963 | 311,511 | 313,940 |
| Construction equipment | 418,864 | 62,830 | 356,034 | - |
| Signs | 84,203 | 54,930 | 29,273 | 35,787 |
| | 13,793,904 | 5,632,112 | 8,161,792 | 8,198,921 |
| Assets on leased land | | | | |
| Tourism buildings | 10,230,913 | 2,317,523 | 7,913,390 | 7,728,117 |
| Parking lots | 107,405 | 26,001 | 81,404 | 85,274 |
| Swimming pool | 136,067 | 14,805 | 121,262 | 126,120 |
| Condominiums | 1,197,107 | 258,582 | 938,525 | 1,009,792 |
| | 11,671,492 | 2,616,911 | 9,054,581 | 8,949,303 |
| | \$ 25,465,396 | \$ 8,249,023 | \$ 17,216,373 | \$ 17,148,224 |

Assets on leased land are located within Jasper National Park on land held under various leases which expire between 2007 and 2022.



SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

6. INVESTMENTS IN AND ADVANCES TO SIGNIFICANTLY INFLUENCED COMPANIES AND OTHER INVESTMENTS

| | | 1996 | | 1997 | |
|---|----------------------|----------------|-----------------------------|---------------------------|----------------|
| | Ownership Percentage | Net Book Value | Advances to (from) Investee | Income (Loss) of Investee | Net Book Value |
| <u>Significantly Influenced Companies</u> | | | | | |
| Thomas Bus Sales (1990) Ltd. | 50% | \$ 593,031 | \$ - | \$ (2,939) | \$ 590,092 |
| Christmas in The Rockies (a partnership) | 50% | 159,856 | (9,374) | 44,155 | 194,637 |
| Maligne River Adventures Ltd. | 50% | 55,717 | (40,000) | 83,502 | 99,219 |
| Oxon Industries Inc. | - | 174,570 | (179,216) | 4,646 | - |
| Other significantly influenced companies | 20% - 50% | 113,343 | (169,541) | 55,469 | (729) |
| | | 1,096,517 | (398,131) | 184,833 | 883,219 |
| Other investments | | 248,153 | | | 189,214 |
| | | \$ 1,344,670 | | | \$ 1,072,433 |

Advances to significantly influenced companies are without interest and have no specified terms of repayment.

Other investments do not have a quoted market value.

7. GOODWILL

| | 1997 | 1996 |
|--------------------------|------------|------------|
| Cost | \$ 715,000 | \$ 879,914 |
| Accumulated amortization | 202,603 | 344,140 |
| | \$ 512,397 | \$ 535,774 |

8. DEFERRED LAND RENT

During the year, the Company renegotiated their land rental agreements for certain properties located in Jasper and received a refund of amounts previously paid. Under the agreements, this deferred land rent is to be applied to land rental payments due in the next two years.

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

9. LONG-TERM DEBT

| | <u>1997</u> | <u>1996</u> |
|---|---------------------|----------------------|
| Mortgages | | |
| Mortgage bearing interest at 8.75% repayable in blended monthly payments of \$88,444, maturing in May, 2001. The mortgage is secured by an unlimited corporate guarantee and debentures totalling \$7,150,000 granting a floating charge over specific land, tourism buildings, furniture and equipment, condominium, and an assignment of rents, leases and insurance. | \$ 6,545,031 | \$ 7,011,278 |
| Mortgage bearing interest at prime plus 1% repayable in blended monthly payments of \$17,000, maturing in September, 1998. The mortgage is secured by specific land, a rental building and an assignment of rents and leases. | 1,489,878 | 1,594,024 |
| Mortgages bearing interest at rates from 8% to 9.75% repayable in blended monthly payments of \$10,592 and annual principal payment of \$21,843 plus quarterly interest, maturing at various dates from August, 1998 to August, 1999. The mortgages are secured by first fixed charges against a specific condominium and a specific tourism building, assignment of rents and insurance, and a chattel mortgage on specific furniture and equipment. | 832,482 | 913,106 |
| Mortgage bearing interest at a rate of 8% maturing in 2010 repayable in blended monthly payments of \$5,000. The mortgage is secured by specific condominiums. | 481,086 | 500,000 |
| Mortgage bearing interest at prime plus 2% repayable in blended monthly payments of \$1,895, maturing in 2009. The mortgage is secured by a specific rental property. | 140,709 | 153,553 |
| Mortgage bearing interest at a rate of prime plus 2% repayable in blended monthly payments of \$3,200, maturing in 1998. The mortgage is secured by a specific land, a rental building and an assignment of rents and leases. | 443,695 | - |
| Carried Forward | \$ 9,932,881 | \$ 10,171,961 |

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

9. LONG-TERM DEBT (continued)

| | <u>1997</u> | <u>1996</u> |
|---|----------------------|----------------------|
| Brought forward | \$ 9,932,881 | \$ 10,171,961 |
| Bank Loans | | |
| Demand bank loans bearing interest at rates of prime plus 1.25% to 1.5% and fixed interest rates of 6.25% to 11% repayable in monthly payments of \$113,825 including interest. Remaining amortization period is from 1 to 5 years subject to annual loan renewal. The loans mature at various dates from July, 1997 to February, 2002. | 6,962,211 | 7,075,499 |
| The above bank loans and operating line of credit are secured by demand debentures and general security agreements granting a fixed and floating charge over all assets of the Company and specific charges against certain properties held for development, rental properties, capital assets and assignment of rents and fire insurance proceeds covering all buildings, tourism marine vessels, furniture and equipment and inventories. | | |
| Capital Lease | | |
| Capital lease bearing interest of 3.90% to 11.71% repayable in blended monthly payments of \$4,353 maturing at various dates from December, 2000 to December 2001. The lease is secured by specific equipment with a net book value of \$146,367. | 156,954 | 19,347 |
| | <u>17,052,046</u> | <u>17,266,807</u> |
| Less current portion | 1,804,901 | 1,830,715 |
| | <u>\$ 15,247,145</u> | <u>\$ 15,436,092</u> |

Principal repayments due within the next five years assuming bank loans subject to annual loan renewal are refinanced under similar terms.

| | |
|------|--------------|
| 1998 | \$ 1,804,901 |
| 1999 | 1,884,509 |
| 2000 | 1,903,819 |
| 2001 | 1,772,910 |
| 2002 | 1,757,412 |

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

10. CONTINGENCIES AND COMMITMENTS

- a) The Company is in violation of certain covenants with respect to a mortgage agreement and its bank loans. Management does not believe that this default will affect the terms of repayment.
- b) The Company has entered into long-term land lease commitments for land located in Jasper National Park which expire between 2007 and 2022. Land lease payments are determined based on appraised value of the land.

Estimated lease payments over the next two years are as follows:

| | |
|------|------------|
| 1998 | \$ 192,000 |
| 1999 | 192,000 |

In addition, a concession levy is payable to Jasper National Park and is determined annually based on certain tourism gross sales.

- c) The Company has entered into a long-term rental agreement for retail space in Jasper for \$164,000 per year which expires January, 1999.
- d) The Company has issued letters of guarantees on behalf of companies over which it has significant influence in the aggregate amount of \$150,000 as at September 30, 1997.
- e) The Company has been named as a defendant in a legal case. The plaintiff is seeking recoveries/damages in the approximate amount of \$500,000. The outcome of this case is uncertain at present. The Company is of the opinion that this claim is without merit and no loss will be incurred. No provision has been made in the accounts for this claim.
- f) The Company has entered into a lease agreement with a company, which is a shareholder of the Company, for retail space in Spruce Grove, Alberta which expires on November 30, 2000.

Estimated lease payments over the next four years are as follows:

| | |
|------|-----------|
| 1998 | \$ 14,625 |
| 1999 | 14,625 |
| 2000 | 14,625 |
| 2001 | 2,438 |

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

11. SHARE CAPITAL

| | |
|--|---------------|
| Authorized | |
| Unlimited Class A common shares | |
| Unlimited Class B restricted, non-voting shares | |
| 100,000,000 first preferred shares | |
| 20,000,000 preferred, redeemable shares, redemption price to be determined upon issuance | |
| Issued | |
| 43,702,510 Class A common shares | \$ 12,087,776 |

12. INCOME TAXES

The income tax provision on the consolidated statements of earnings and retained earnings exceeds the Company's statutory income tax rate of 45% principally because the tax cost of capital assets is less than the carrying value for accounting purposes. The carrying value for accounting purposes was based on the fair market values of the assets at the time they were acquired by the Company. The tax cost of the assets did not change upon their acquisition. Therefore, depreciation expense for accounting purposes exceeds capital cost allowance for tax purposes.

The following reconciles income taxes calculated at the combined basic Canadian federal and provincial income tax rate with the income tax provision in the consolidated financial statements.

| | <u>1997</u> | <u>1996</u> |
|--|-------------------|-------------------|
| Income tax based on the combined basic Canadian federal and provincial income tax rate | \$ 332,000 | \$ 621,000 |
| Tax effect of provision for impairment in value of assets | 392,000 | - |
| Tax effect of depreciation greater than capital cost allowance | 105,000 | 130,000 |
| Large corporation tax | 50,000 | 50,000 |
| Tax effect of other permanent differences | (17,000) | 75,000 |
| | <u>\$ 862,000</u> | <u>\$ 876,000</u> |

SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

13. RELATED PARTY TRANSACTIONS AND BALANCES

Significant transactions with related parties not disclosed elsewhere in these financial statements are as follows:

- a) Transactions and balances with companies over which the Company has significant influence (20% to 50% equity interest)

| | <u>1997</u> | <u>1996</u> |
|------------------------------------|-------------|-------------|
| Capital assets purchased | \$ - | \$ 188,806 |
| Rental and tourism revenue | 170,488 | 165,433 |
| Management fees received | 100,000 | 100,000 |
| Gain on disposal of capital assets | - | 29,833 |
| Purchase of investment | 13,674 | - |
| Balances in accounts receivable | 122,114 | 164,604 |
| Balance in accounts payable | 13,674 | 286,860 |

- b) Transactions and balances with companies which are shareholders or corporations owned by shareholders of the Company

| | <u>1997</u> | <u>1996</u> |
|---------------------------------|-------------|-------------|
| Rental and retail revenue | \$ 84,319 | 72,000 |
| Rental expense | 17,349 | 17,288 |
| Management fee expense | 118,037 | 113,671 |
| Vehicles lease expense | 79,978 | 102,826 |
| Advertising fees expense | 26,400 | 20,900 |
| Capital assets purchased | 127,553 | 26,110 |
| Purchase of investment | 41,022 | - |
| Balances in accounts receivable | 89,488 | - |
| Balance in accounts payable | 38,728 | - |

- c) Transactions and balances with companies over which shareholders of the Company have significant influence

| | <u>1997</u> | <u>1996</u> |
|--------------------------------|-------------|-------------|
| Rental revenue | \$ 37,125 | \$ 28,890 |
| Retail revenue | 111,919 | 12,822 |
| Interest revenue | 13,169 | - |
| Balance in accounts receivable | 53,558 | - |
| Balance in other receivables | 135,794 | 76,082 |



SUNRISE INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
Years ended September 30, 1997 and 1996

13. RELATED PARTY TRANSACTIONS (continued)

- d) Transactions and balances with individuals who are shareholders and, in some cases, directors of the Company

| | <u>1997</u> | <u>1996</u> |
|-----------------------------|-------------|-------------|
| Legal expense | \$ 8,318 | \$ 37,393 |
| Directors' fees expense | 72,000 | 72,000 |
| Purchase of investment | 13,674 | - |
| Balance in accounts payable | 13,674 | - |

- e) Transactions and balances with a company controlled by an individual in the Company's management

| | <u>1997</u> | <u>1996</u> |
|--------------------------------|-------------|-------------|
| Retail revenue | \$ 384,000 | \$ 369,120 |
| Balance in accounts receivable | 3,194 | 10,647 |

- f) Transactions and balances with a company jointly controlled by an individual in the Company's management

| | <u>1997</u> | <u>1996</u> |
|--------------------------------|-------------|-------------|
| Retail revenue | \$ 31,000 | \$ 96,675 |
| Balance in accounts receivable | 1,288 | 11,647 |

Generally, the above transactions are at market rates or are as agreed between the related parties. The balances have normal terms and conditions.

SUNRISE INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended September 30, 1997 and 1996

14. FINANCIAL INSTRUMENTS

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Company's cash flows, financial position and income. The risk related primarily to long-term debt issued at floating interest rates. Currently, \$3,093,000 of the Company's long-term debt is issued at floating interest rates. A 1% change in interest rates would change earnings before income taxes by \$31,000.

Fair value

Fair values approximate amounts at which these instruments could be exchanged in a current transaction between willing parties. Fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Therefore, due to their subjective and uncertain nature, fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

Current assets and liabilities are valued at their carrying values due to the relatively short period to maturity of these instruments. The fair value of other receivables and investments in and advances to significantly influenced companies and other investments are not determinable as these instruments lack an available trading market. The fair value of long-term debt is assumed to approximate carrying value as the existing rates represent the rates currently available to the Company.

15. SUBSEQUENT EVENTS

- a) Subsequent to year end, the Company entered into an agreement to sell a condominium to a director of the Company for a gain of \$44,640.
- b) Subsequent to year end, the Board of Directors of the Company approved the sale of a rental property to a company controlled by a shareholder of the Company for no gain or loss.

SUNRISE INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended September 30, 1997 and 1996

16. SEGMENTED INFORMATION

| | Tourism and Hotels | | Retail | | Rental | | Eliminations | | Consolidated | |
|---|--------------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|---------------|
| | 1997 | 1996 | 1997 | 1996 | 1997 | 1996 | 1997 | 1996 | 1996 | 1995 |
| Revenue from external customers | \$ 11,653,803 | \$ 11,367,499 | \$ 9,943,827 | \$ 9,514,932 | \$ 1,170,229 | \$ 1,063,293 | \$ - | \$ - | \$ 22,767,859 | \$ 21,945,724 |
| Inter-segment revenue | 147,000 | 158,000 | 18,000 | - | 277,791 | 285,103 | (442,791) | (443,103) | - | - |
| GROSS REVENUE | \$ 11,800,803 | \$ 11,525,499 | \$ 9,961,827 | \$ 9,514,932 | \$ 1,448,020 | \$ 1,348,396 | \$ (442,791) | \$ (443,103) | \$ 22,767,859 | \$ 21,945,724 |
| SEGMENT OPERATING EARNINGS (LOSS) | \$ 2,935,921 | \$ 2,937,812 | \$ (585,505) | \$ (488,667) | \$ 451,004 | \$ 733,784 | \$ - | \$ - | \$ 2,801,420 | \$ 3,182,929 |
| Income from investments in significantly influenced companies | | | | | | | | | 184,833 | 104,441 |
| Other income | | | | | | | | | 347,318 | 171,769 |
| General corporate expenses | | | | | | | | | (659,895) | (573,418) |
| Interest on long-term debt | | | | | | | | | (1,405,628) | (1,504,826) |
| Provision on impairment of value of assets | | | | | | | | | (871,711) | - |
| Gain from insurance settlement | | | | | | | | | 338,907 | - |
| Income taxes | | | | | | | | | (862,000) | (876,000) |
| NET EARNINGS | | | | | | | | | (126,756) | \$ 504,895 |
| Identifiable segment assets | \$ 14,221,836 | \$ 15,402,842 | \$ 3,803,384 | \$ 3,378,355 | \$ 11,191,423 | \$ 10,550,180 | \$ - | \$ - | \$ 29,216,643 | \$ 29,331,377 |
| Corporate assets | | | | | | | | | 3,108,640 | 2,908,692 |
| Investment in affiliates | | | | | | | | | 1,072,433 | 1,344,670 |
| TOTAL ASSETS | | | | | | | | | \$ 33,397,716 | \$ 33,584,739 |
| CAPITAL EXPENDITURES | \$ 977,459 | \$ 1,193,978 | \$ 892,457 | \$ 146,313 | \$ 787,969 | \$ 399,727 | \$ - | \$ - | \$ 2,657,885 | \$ 1,740,018 |
| DEPRECIATION AND AMORTIZATION | \$ 830,103 | \$ 814,169 | \$ 297,366 | \$ 285,441 | \$ 408,243 | \$ 386,732 | \$ - | \$ - | \$ 1,535,712 | \$ 1,486,342 |

The Company operates primarily in three industries - tourism and hotels, retail and rental. Tourism and hotel operations includes providing recreational services at Maligne Lake in Jasper National Park, Alberta and hotel accommodations in Jasper, Alberta and Stony Plain, Alberta. Retail operations comprise the marketing of a variety of goods in various locations throughout Alberta. Rental operations consist of renting commercial and residential properties in various locations in Alberta. Inter-segment revenues are accounted for at prices comparable to open market prices for similar products and services.

